

MAGAZINE MEDIA

RESPONSE TO PRC PROPOSAL

AMERICAN MAIL ALLIANCE



KEEP THE CAP

The PRC's Legacy: *What will it be?*

Consumers Love Their Magazines

MARCH 2018



Your Business Becomes Our Business.™



That's why we make more eCommerce deliveries to homes than anyone in the country.

Learn more at usps.com/yourdelivery

UNITED STATES POSTAL SERVICE®
PRIORITY:YOU

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Magazines Deliver

USPS spends nearly half of its annual advertising dollars — \$16 million — in consumer magazines.

Why? Because magazines are proven to be the best place to drive sales, with the highest return on advertising spend across media.

Source: Kantar Media, 2018; Nielsen Catalina Solutions, 2016

Keep the Cap

Making the case for pricing predictability and stability

The announcement of the Postal Regulatory Commission (PRC) pricing proposal began with the statement that a price cap system is the best way to create pricing predictability and stability. The details of the announcement, however, support an entirely different reality.

The PRC proposal blew past the initial price cap to add incremental rate increases of another two percent, one percent, and then two percent for certain classes. While each increment evaluated on its own sounds small, the compounded increase reaches levels that have never been seen before. Since those additive increases are annual, the compounded rate over the five-year term of the proposal could be a 40-percent increase. With the CPI currently trending above recent levels, that 40-percent increase could soar even higher!

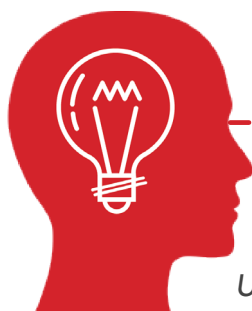
A price increase of such magnitude is unprecedented, especially for a monopoly service. In recent years, the cost for all other periodical manufacturing elements has gone down. The economic challenges forced every other supplier to innovate for greater efficiency and cost savings. Against that backdrop, the increases proposed by the PRC look even more astonishing. In addition, the assumptions that have been

made in the past about pricing elasticity and the impact on the volume of copies mailed all get thrown to the wind in the current proposal. There is no model that captures the existential threat posed by an increase of that scale.

Undoubtedly, a threat to the business model of periodicals becomes a threat to USPS in a spiral of unintended consequences. Many magazines would be forced to reduce the number of copies mailed or reduce mailing frequency or cease publishing altogether. That, in

turn, would take an enormous number of magazines out of the mail stream, thus putting additional pricing pressure on the small number of mailer customers remaining. Similar scenarios would play out for other mailers, and so on and so on, until no mailers remain.

Indeed keeping a price cap system is the best way to create pricing predictability, but keeping a price cap system that is fair and reasonable is the best way to create predictability and stability.



OUR POINT OF VIEW

USPS & MPA: Your Business Is Our Business



We support, and need, a healthy Postal Service

The proposed rate increases will have the chilling effect of driving away business, which will leave USPS in a far worse position.




The PRC proposal imposes drastic increases for magazines

The cumulative effect of the proposed changes results in a 40-percent rate increase over five years.



Efficiency needs to be a key consideration

USPS' efficiency for periodicals has gone down in recent years, despite the magazine industry's ongoing commitment to work-sharing.



“ Periodicals are the
ANCHOR in the mailbox . . . the
strength of periodicals is that
people want them. ”

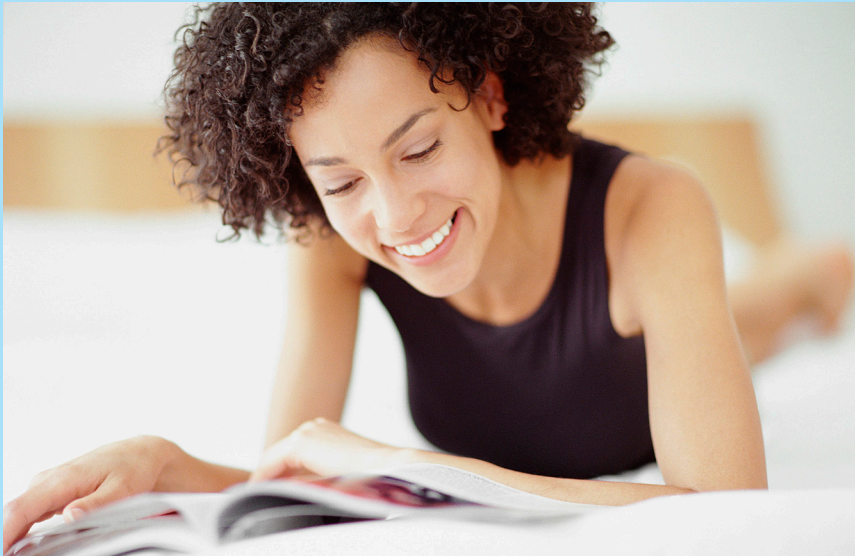
FORMER POSTMASTER GENERAL
Jack Potter

“ Periodicals are the ANCHOR
STORE in the Postal Mall. ”

FORMER POSTMASTER GENERAL
Bill Henderson

Consumers Love Their Magazines

Every month, **over
230 million** magazine issues
are mailed to paying subscribers
across the United States.



MAGAZINE MEDIA

is more trusted, inspiring, and motivating than other media.

Magazines are as old as the United States itself, boasting a rich relationship with Americans that began in the 1700s with the dawn of the printing press and continues today across all digital platforms beyond the printed page.

Magazines have been serving Americans' interests and putting "the people" in touch with their passions for centuries. They fulfill a crucial role as vital producer of longform journalism as well as capture critical moments in history with iconic photographs and images. As America has continually redefined itself—decade after decade—growing geographically and diversifying demographically, magazines have been there for every shift in the cultural tide, and every pivotal moment in our country's

evolution. Magazines report on the nation's concerns and offer perspectives on the many distinct parts and aspects of American society.

It's no wonder that Americans in the 21st century—the most diverse population the nation has ever seen—look for the branded authoritative content and unique connection to their passions that only magazines provide.

UNDER 25

U.S. adults under 25 read/
consume an average of
eight print issues per month.

U.S. adults read
8.7 PRINT
MAGAZINES
per month

AND AMERICA'S
diverse communities
read even more:



9.0 ▲ .3%

Lesbian, Gay, Bisexual and Transgender adults read 9.0 print magazines per month.

9.0 ▲ .3%

Hispanic American adults read an average of 9.0 print magazines per month.

11.6 ▲ 2.9%

African American adults read an average of 11.6 print magazines per month.

9.1 ▲ .4%

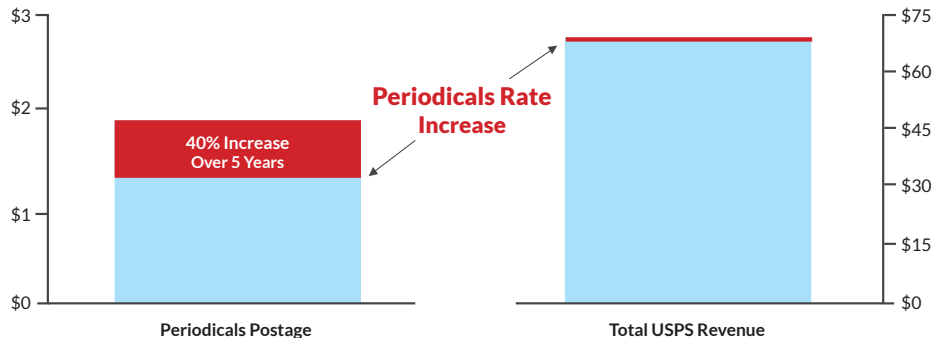
Asian American adults read an average of 9.1 print magazines per month.

WHAT IS THE PRC'S LEGACY?

A Drop in the Bucket

The PRC's proposal to address a complex problem solely by ratcheting up prices ignores the fundamental business issues facing the USPS. Dramatically increasing prices on loyal customers only throws a small bit of macadam into an enormous pothole.

An Existential Threat to an Industry;
A Drop in the Bucket to USPS



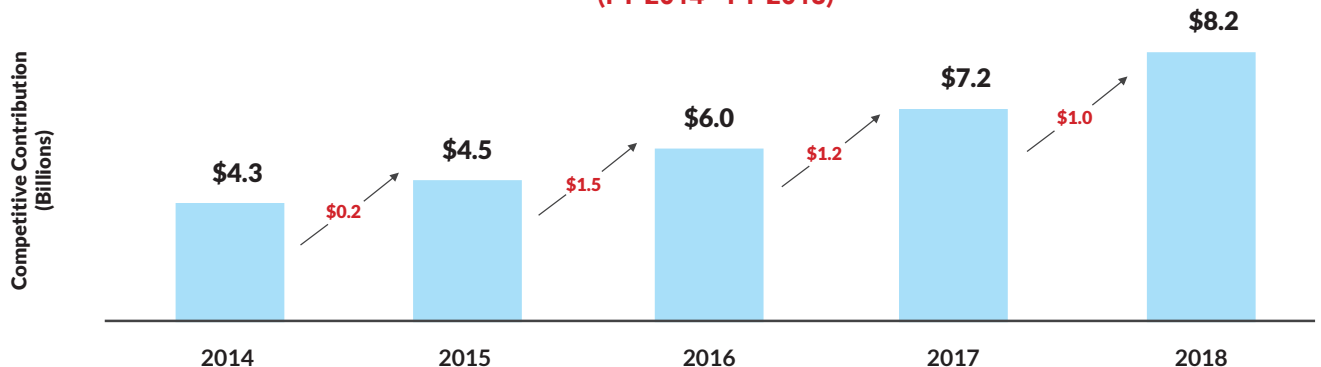
The incremental costs to the magazine industry represent a substantial burden on their businesses, one that is likely to result in decreased volume, decreased frequency or outright closure of titles. At the same time, that amount of money is a mere rounding error to USPS.

A Solution With No Problem



This proposal comes at a time when revenues from new postal sources continue to climb. The profit from packages keeps growing, giving the postal service an extra **\$1 billion of profit per year.**

Competitive Product Contribution
(FY 2014 - FY 2018)

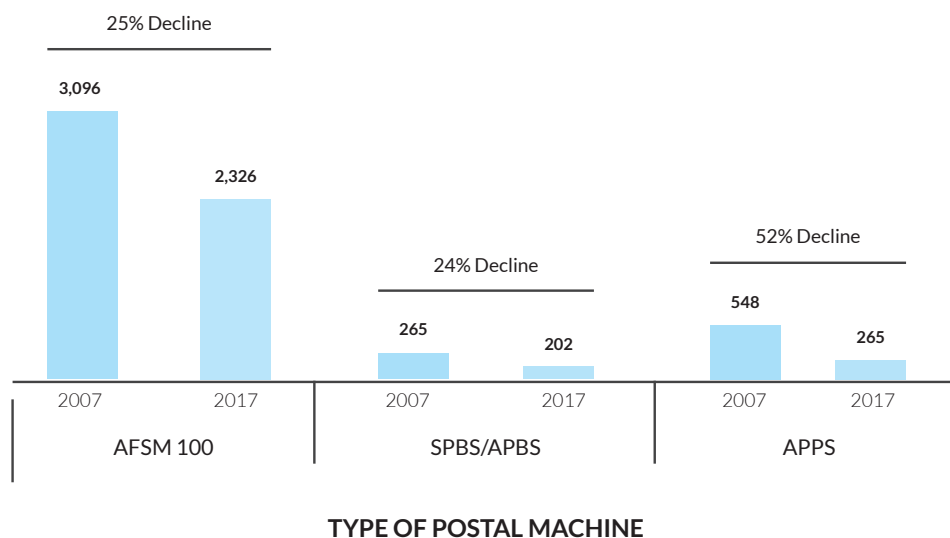


Address the Real Issues

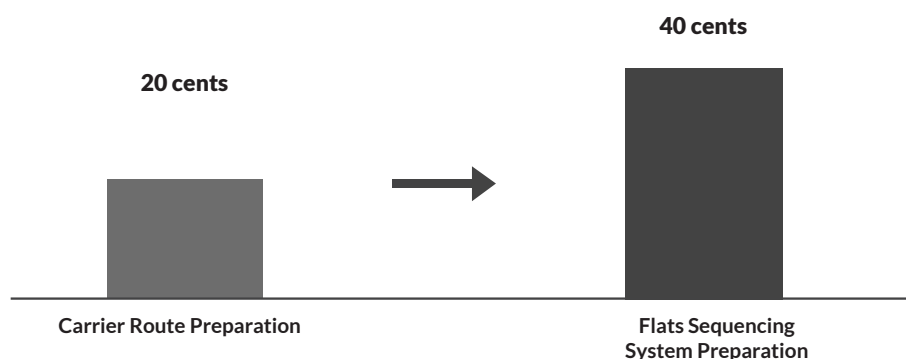
In the past decade, USPS' productivity has significantly declined for periodicals. While the USPS continually refers to periodicals being "underwater" in their cost coverage, this is completely due to USPS' decrease in efficiency.

If efficiency had simply remained at previous levels, even without any improvement, periodicals would be at 97-percent cost coverage. When you factor in the additional mail that publishers' send in other classes to support their business—invoices, renewals, etc.—periodical mailers get to 121-percent cost coverage.

USPS Flat Sorting Machine Productivities



The Postal Service Shifted Magazines From Low-Cost to High-Cost Processing



Adjusting for Previous Efficiency, Periodicals Cover Costs

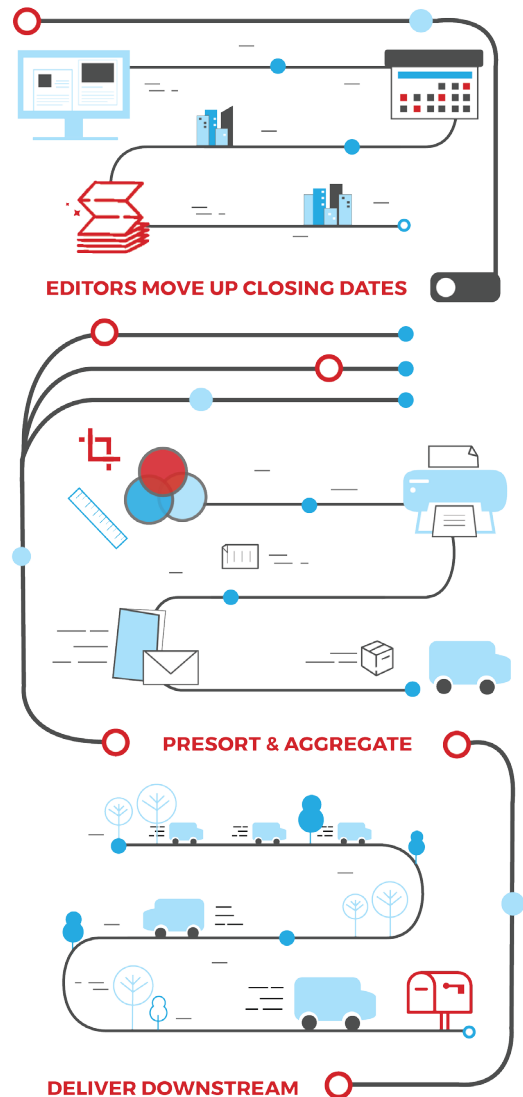
COST COVERAGE	
As Reported	69%
At Previous Efficiency Levels	97%
Including Mail in Other Classes	121%

WE ARE GOOD PARTNERS

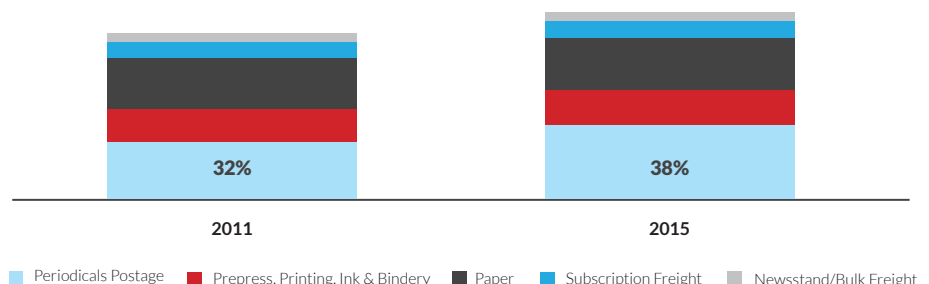
To help reduce postal costs, publishers have undertaken much more upfront prep work before giving magazines to the Postal Service for final processing and delivery. Working with our printers and shippers, more than two-thirds of magazines are presorted to the deepest sortation level before mailing. About three-quarters of magazines are taken by private trucks to processing plants near readers' final destinations, and magazines have virtually eliminated the use of sacks, providing magazines to the Postal Service aggregated on 500-pound or even larger pallets.

We have modified editorial and printing schedules to give the Postal Service a bigger window to process magazines by machine rather than by hand, and have changed our truck routes to precisely match the locations the Postal Service prefers for us to enter our mail.

MAGAZINES HELP USPS



Manufacturing, Production, and Distribution



USPS IS THE ONLY PARTNER IN THE MAGAZINE PRODUCTION/ DELIVERY ECOSYSTEM WHOSE COSTS HAVE INCREASED IN RECENT YEARS.



Mark Acton (R)
Commissioner

"Many of the Postal Service's greatest challenges are not a primary result of the rates that it charges its customers and partners."



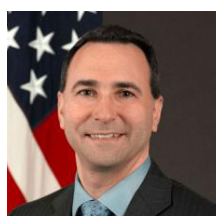
Tony Hammond (R)
Vice Chairman

"This proposal is no more than a starting point. All the Commissioners agree that some change is needed to the ratemaking system. But, we disagree on the exact changes that would be most prudent . . . I am hopeful that, with the input of all stakeholders, the Commission can arrive at a balanced resolution to this review process."



Nanci E. Langley (D)
Commissioner

"I continue to believe that the PAEA [Postal Accountability and Enhancement Act] performed as Congress intended—providing the Postal Service with certain pricing flexibilities, the mailers with pricing predictability and stability, and the regulator with enhanced authority."



Robert G. Taub (R)
Chairman

"First and foremost, the financials need to be fixed."

IN THEIR OWN WORDS: PRC PERSPECTIVE

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The changes proposed in this Order essentially constitute a return to the Postal Reorganization Act (PRA)'s cost-of-service rates, but without any of the protections of the PRA framework. The PRA afforded the Postal Service the ability to recover all its costs through price increases, but accordingly made it forgo pricing flexibility and subjected it to significant regulatory scrutiny. The [subsequent] PAEA freed up the Postal Service's flexibility to set prices as it sees fit. But, it also simultaneously imposed the constraint of an overall price cap to protect customers. The changes proposed in this Order would grant the Postal Service the benefits of both systems and require of it the sacrifices of neither.

- TONY HAMMOND

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Samuel Zeller, Unsplash

AMERICAN MAIL ALLIANCE: *OUR THOUGHTS*

MPA is proud to unite with more than 80 mailers

The American Mail Alliance's members collectively represent the great majority of mail volume—and revenue—in the Market Dominant segment of the mail stream, and their suppliers. The AMA members—associations, corporations, nonprofit organizations, and other postal stakeholders—are united in the belief that, contrary to restoring financial stability to the Postal Service, the Commission's proposal will drive a great deal more volume and revenue out of the system, imperiling businesses, jobs, and the Service itself.

The Commission's proposal will not solve the Postal Service's financial "problems" and will, we believe, cause lasting damage to the Postal Service and to the \$1.4 trillion mailing industry—and the 7.5 million jobs it supports. This valued service, which for many is their one regular contact with the federal government, could be jeopardized by the drastic increases in postal rates that will result from the Commission proposal.

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THE POSTAL SERVICE'S POOR FINANCES ARE NOT 'DUE TO' DEFICIENCIES IN THE RATE-MAKING SYSTEM

The Postal Service's poor finances are due primarily to the Congressional retiree health prefunding mandate to pay for the full liability for retiree health care on an accelerated schedule. Having begun the PAEA era with a financial handicap, the Service's situation was immediately worsened when expectations of continuing growth in postal volumes proved wrong.

Over 90 percent of Postal Service losses in the last decade are "due to" this misguided prefunding schedule. The Postal Service is better funded for retiree benefits than any other federal, state, or private sector entity. In total, more than \$340 billion are already set aside in the U.S. Treasury for that purpose. (The other shortcomings the Commission finds in its rate review—not maintaining high quality service standards and not increasing price efficiency—could be ameliorated without burdening mailers with prices that are significantly higher than the rate of inflation for the next five years.)

THE COMMISSION PROPOSAL PUTS TOO MUCH WEIGHT ON A SINGLE OBJECTIVE

The current system has met mailer needs and funded ongoing USPS operations. But when it comes to the future of ratemaking, among all of the relevant Objectives and Factors, the Commission appears to unduly focus on Objective 5, the Postal Service's financial stability, at the expense of other objectives.

For every shortcoming identified in the 10-year lookback, the only parties required to suffer any consequences, through vastly higher rates, are the mailers. There is no reason within the current scheme of postal ratemaking that the Postal Service cannot be asked, and expected, to achieve improvements in service and more efficient pricing.

TWO WRONGS DON'T MAKE A RIGHT

The Commission ruling in the 10-year rate review, and its resulting rulemaking, largely stem from the Commission's acceptance of the Postal Service's \$62 billion in retirement liabilities "as a given" that the Commission must accept and that it alone must repair. In determining that it must offset these obligations with rate increases, the Commission compounds the problem and the error of the fundamental assumption in PAEA that USPS could indefinitely fund crushing prefunding payments.

By proposing only one solution—much higher postage rates—the Commission has succumbed to the fallacy that one response can fix a complex problem with multiple causes.

The Postal Service has defaulted on this debt for several years without consequence. In spite of a historically low period of inflation over the past 10 years, and the Great Recession, the Postal Service is still covering its operating expenses. We agree that this is a problem and it should be fixed. But it is the job of Congress, not the Commission.

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THE COMMISSION PROPOSAL WILL DO MORE HARM THAN GOOD

A MA's members unanimously believe that the Commission rulemaking proposal will do lasting harm to the Postal Service. It will put many mail and supply chain stakeholders out of business, force them out of the mail, or push them to find—or create—alternative, cheaper, and more stable distribution methods.

The proposed rule comes at a time when the Postal Service is fighting to retain business. The Postal Service is challenged by decreasing demand in its Market Dominant products—precisely the ones facing these counterproductive increases. What rational business dramatically raises price in a competitive environment of reduced demand?

The Commission proposal essentially announces to the world that the Postal Service will be charging much higher prices for at least the next five years and, for some products, will be charging prices that are double or triple the rate of inflation. We value the Postal Service and want to keep it healthy and able to continue to reach every home and business in the country. We genuinely fear that this proposal could prove a cure that is worse than the disease, and quite possibly fatal to the system's self-sustaining business model.

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CONCERN FOR UNINTENDED CONSEQUENCES

We all agree that every Postal Service product, including those considered underwater, should “pay its fair share.” But, an extra two percent per year on top of the huge base rate change proposed for all Market Dominant products, compounded, will be devastating.

And that devastation will directly and severely impact all mail. The underwater surcharge would apply to mail, such as magazines, newspapers, and catalogs that are part of the mail moment. The last thing that should be done is to dampen an incentive for consumer interaction with the mail. Nonetheless, the rates proposed by the Commission overall, punctuated by the “kicker” to underwater products, not just dampen, but outright wash away, that incentive.

The Commission proposal does little or nothing to challenge the Postal Service to take lasting steps to streamline costs. Instead, by simply mandating much

higher prices, it removes the pivotal incentive to cut costs. The industry believes that it is hardly a coincidence that the Postal Service achieved larger cost savings when constrained by a rate cap. In addition, these higher prices will deter the Postal Service and mailers from exploring products or prices that could help the Postal Service gain market volumes and improve its competitive position.

WE WANT USPS TO SUCCEED

Thanks to an irresponsibly aggressive prefunding schedule, the Postal Service’s balance sheet is colored in red. The Postal Service faces intensifying pressure from substitutes for its core market dominant products and declining demand as shown by disappointing letter and flat volumes. On the other hand, it continues to generate around \$70 billion in annual revenues and has an unmatched delivery network.

We are at a critical juncture. The Postal Service is a unique institution, which makes comparisons with other businesses tricky. The key to a

successful turnaround or reinvention often depends on a particular set of circumstances, but there is one thing you will not find. There is no precedent for an organization in any industry that succeeded through exorbitant price increases in the face of weak demand.

AMA members want the Postal Service to succeed.

GLOSSARY

CPI:

Consumer Price Index. CPI is a measurement of U.S. prices for most household goods and services. In the PAEA it is used to limit price increases to inflation

COST COVERAGE:

The percentage of a mail class’s reported cost covered by its postage

PAEA:

Postal Accountability and Enhancement Act. Passed in 2006, the PAEA changed how postal rates were set, requiring a price cap of CPI with a subsequent 10-year review of the law

PRC:

Postal Regulatory Commission. The Commission is an independent agency with regulatory oversight over the Postal Service since its creation by the Postal Reorganization Act of 1970, with expanded responsibilities under the Postal Accountability and Enhancement Act of 2006

PRA:

Postal Reorganization Act. Passed in 1970, the PRA gave the USPS the ability to recover all its costs through price increases, but limited pricing freedom. PRA was in effect until 2006 when PAEA passed

USPS:

United States Postal Service.



AMA Members

Alliance of Nonprofit Mailers	Intelisent
American Catalog Mailers Association	IWCO Direct
American Forest and Paper Association	Jewish Voice Ministries International
American Heart Association	LSC Communications
American Institute for Cancer Research	Major Mailers Association
Assn of Direct Response Fundraising Counsel (ADRFCO)	Mid-Atlantic Free Papers Association (MACPA)
Association of Free Community Papers (AFCP)	MPA – The Association of Magazine Media
Association for Postal Commerce	National Association of Presort Mailers
Association for Print Technologies (formerly NPES)	National Catholic Development Conference
Chesapeake Bay Foundation	National Newspaper Association
Community Papers of Florida (CPA)	National Postal Policy Council
Community Papers of Michigan (CPM)	National Retail Federation
Community Papers of New England (CPNE)	National Wildlife Federation
Consumer Reports	News Media Alliance
Data-Mail, Inc.	Operation Smile
Data and Marketing Association (DMA)	Pacific Northwest Association of Want Ad Papers (PNWAWAP)
Direct Marketing Fundraisers Association (DMFA)	Parcel Shippers Association
DMA Nonprofit Federation	Printing Industries of America
The Elks Magazine	Quad/Graphics
Envelope Manufacturers Association	Saturation Mailers Coalition
Food for the Poor	Small Business Legislative Council, Inc.
Free Community Papers of New York (FCPNY)	Southeastern Advertising Publishers Association (SAPA)
/Ad Network NY	Wisconsin Community Papers (WCP)
Guideposts	Wounded Warriors Project
Idealliance	YMCA OF THE USA
The Independent Free Papers of America (IFPA)	

LIST AS OF MARCH 1, 2018

CAN YOU BELIEVE WHAT YOU READ?

**MAGAZINE
MEDIA**
Better. Believe It.

With fake news leaving most Americans confused about even the basic facts, magazine media keeps it real. Whether in print, online, on mobile or video, people trust it to be expertly researched, written and fact-checked. No wonder magazine readers are more engaged and more likely to recommend advertised products.

Being real matters. That's a fact.

#BelieveMagMedia | BelieveMagMedia.com

WE ARE MPA

150 Members

500 Magazine Media Brands

**Every month, over 230 million magazine issues are mailed
to paying subscribers across the United States**



FOR ADDITIONAL INFORMATION, PLEASE CONTACT:

Susan Fraysse Russ

Senior Vice President, Communications | MPA - The Association of Magazine Media
sruss@magazine.org | (212) 872-3732